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SUBJECT: US-IRAQ DIALOGUE HIGHLIGHTS IMPEDIMENTS TO BUSINESS AND INVESTMENT

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game," business executives said the GOI needed to help facilitate political risk insurance. One representative explained to Iraqi officials that in discussion with other potential investors in the US, the availability of political risk insurance was invariably one of their primary concerns.

#### Banking Sector Needs International Capacity

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[¶18.](#) (SBU) Business participants explained that transferring money into the country is amongst the greatest challenges to doing business in Iraq. For example, one of the private equity firms could not find a bank in the U.S. that was willing to accept funds destined for the Iraqi market due to money laundering and corruption concerns, and ultimately used Hong Kong Shanghai Banking Corporation (HSBC). A manager for Al-Warka bank (the largest private Iraqi bank) agreed that Iraqi banks are not able to provide all the services that U.S. financial institutions provide; he called for the need to strengthen partnerships between Iraqi and U.S. institutions.

#### IMPLEMENTING REGULATIONS FOR INVESTMENT LAW

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[¶19.](#) (SBU) In a strongly-worded speech, Chairman-designate of the National Investment Commission Ahmed Ridha lambasted the Council of Ministers (COM) for their tardiness in approving investment licenses; according to Ridha, of the US\$ 74 billion in projects he has signed for, US\$68 billion is languishing in the COM awaiting approval. (Note: The following day, the Council of Ministers voted to remove Ridha from his position. End note).

[¶10.](#) (SBU) Private sector participants suggested that the Iraq regulations governing foreign investment be transparent and more widely disseminated. If investors are more aware of the investment law and regulations in place, they said, this would attract greater

interest by international investors. In response to Commerce Deputy Secretary Sullivan pressing the Iraqis on the status of the investment law's implementing regulations, GOI officials responded that these were with the Council of Ministers and should be published "within a few days." (Comment: This was a highly unlikely prospect even before the sacking of Ridha. End comment.)

#### CORRUPTION AS A DETERRENT TO INVESTMENT

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**¶11.** (SBU) A representative from BAE Systems raised the issue of transparency and corruption as a major factor in a country's business and investment climate. In his view, corruption will remain a grave impediment to foreign investment in Iraq unless the Iraqi Government takes concrete steps to combat it. He also stressed that U.S. and foreign investors must also do their part to combat corruption by complying with the Foreign Corrupt Practices Act (FCPA).

#### PARTNERSHIP AND MOMENTUM

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**¶12.** (U) For successful long-term investment, private sector representatives stated that partners need a shared vision and commitment. The representatives suggested that Iraqis need to also contribute financially to an investment in order for both partners to feel committed and have unity of purpose. One U.S. private sector representative noted that U.S. investors often ask before investing in Iraq how much the Iraqis are investing themselves. At the same time, they argued that the Iraqi government should embrace those foreign companies already on the ground and help their deals succeed, since other investors will be drawn to this success. A representative from Daimler-Benz noted that investors are motivated by two factors, fear and greed, and that the Iraqi government had to take steps so that greed outweighed fear.

#### U.S. CHAMBER OF COMMERCE PRESENTS "12 CRITERIA"

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**¶13.** (U) Senior U.S. Chamber of Commerce Advisor Aram Zamgochian set out twelve criteria used by international investors in evaluating markets: the existence of internal markets, freedom of access to these markets, existence of a qualified labor force and raw materials, protection from currency devaluation, the ability to remit dividends, property rights, the ability to export, low regulatory burdens, tax incentives, low political risk, predictable macroeconomic conditions and management, and reliable infrastructure support. He concluded that the Iraqi market boded favorably on these criteria. The World Bank also provided a tool to evaluate Iraq's business and investment climate.

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#### VIEW FROM THE WORLD BANK

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**¶14.** (SBU) World Bank Country Manager Jean-Michel Happi presented findings from the World Bank's 2009 Doing Business Report on Iraq, in which Iraq ranked 152 out of 181; in the Middle East Iraq ranked next to last. The Report's findings suggest that Iraq can achieve improvement by simplifying the procedures, time, and cost required to start a business, for instance through one-stop shop; by streamlining import and export regulations through a trade facilitation program; and by improving access to credit information for borrowers and lenders. Reforms should aim at modernizing commercial laws, with a view to improving commercial dispute settlement (both in and out of bankruptcy procedures), enforcing contracts, and protecting investors. USTR cited the advantages to joining the World Trade Organization and how it would further signal that Iraq is open for business.

#### IRAQI PRIVATE SECTOR

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**¶15.** (SBU) Representatives of the Iraqi private sector identified the limitations they also face in doing business. For instance, they

complained about the high cost of borrowing capital and their inability to compete with foreign companies. After two such interesting comments, however, Finance Ministry Jabr stated that there would be other occasions to deal with particular Iraqi problems.

IRAQIS STRAY FROM AGENDA

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¶16. (SBU) During the Dialogue's last sessions, the Iraqi moderator unexpectedly gave the floor to five provincial governors, who then went on to give speeches on the various merits of their individual provinces and potential for investment. This abruptly halted the dialogue with the American side. In fact, the Governor of Anbar Province began his remarks by stating, "I am not here to talk about the obstacles to investment since there are so many opportunities." The provinces focused on opportunities in areas such as oil, industrial production, telecom, housing, minerals, water, tourism, and textiles. They described the thousands of engineers and academics who form a ready group of skilled employees. Some also cited the number of companies and their countries of origin that were already operating in their province.

NEXT STEPS

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¶17. (SBU) Finance Minister Jabr closed the DBIC by agreeing with DepSec Sullivan to continue the process of investment reform through the bilateral Dialogue on Economic Cooperation (DEC), to be next held in the first half of 2009. USTR also expressed desire to get a discussion with the GOI on the Trade and Investment Framework Agreement (TIFA) underway.

COMMENT

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¶18. (SBU) The DBIC helped advance the bilateral discussion on reforms and conditions needed to create a better investment climate in Iraq. The private sector, U.S. Chamber of Commerce, and World Bank's participation helped reinforce the importance of these reforms and provided further credibility to our ongoing bilateral dialogue with the Iraqis on private sector development. The Embassy will now work with the GOI (and specifically with DPM Barham Salih when he returns to Baghdad) to seek GOI engagement on issues identified at the DBIC. We will use the planned DEC in the first half of 2009 as a target for GOI action. Separately post will provide thoughts for Washington on how to address the impediment to business posed by U.S. visa regulations. End Comment.

¶19. (U) Deputy Secretary Sullivan cleared this cable.

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